

Sharesave



General Features

The **Sharesave** plan is also known as the **Save As You Earn (SAYE)** or Savings-Related Share Option Scheme, and was introduced under the Finance Act 1980.

Sharesave is an arrangement under which an employee has the right (known as an 'option') to buy shares at a future date at a price determined shortly before the options are granted.

The company can discount the price of the shares by up to 20% of the market value

Shares can only be purchased with the proceeds of savings made under a special SAYE savings contract,

set up with a bank or building society for a period of 3 or 5 years. The length of the option can be 3, 5 or 7 years – for the 7 year option savings are made for 5 years only, with the savings remaining in the account for the further two years. Savings are made by payroll deduction from participant's net salary, with the employer remitting them to the bank or building society.

Eligibility

The plan has to be open to all eligible employees of the company.

A qualifying period of employment can be set but this must be no greater than 5 years. The majority of companies operating a Sharesave plan operate on a much shorter eligibility period, to the extent that it is not uncommon to include all those employed as at the date of invitation (who continue to be employed to the grant date).

Limits

There is a minimum savings amount of £5 per month, and a maximum of £250 per month across all existing SAYE contracts.

At maturity (the 3, 5 or 7 year anniversary from the contract start date if no payments have been missed) a tax-free bonus is paid as follows in the table below:

Type of Contract	Total Monthly Savings	Tax Free Bonus	Interest Equivalent
3 Year	36 Payments	0 x monthly contribution	0%
5 Year	60 Payments	0 x monthly contribution	0%
7 Year	60 Payments	1.6 x monthly contribution	0.58%

The rates quoted are effective from 23 September 2011 – previous contracts will have been offered under different terms.

Example case

In the following example, a number of assumptions concerning share price, the discount offered for the option price and share performance are all assumed to provide a working example.

Stage 1

Say the employee chose to save £40 per month for 7 year option (60 x £40)	=	£2,400
At maturity the tax-free bonus (based on the September 2011 SAYE Prospectus would be added (1.6 x £40)		£64
Total in the savings account	=	£2,464

Stage 2

If the option price is (£1 less a 20% discount)	=	80p
Number of shares (£2,464 / 80p)	=	3080
Say the share price rose to £1.20 after 5 years (3085 x £1.20)	=	£3,696
For this example, this represents an increase of £1,296 on original savings of £2,400		

Lapse of Options

The option to purchase shares will lapse if the option holder closes the savings account and requests repayment of the savings before the end of the period of the contract.

If the employee misses more than 6 monthly contributions, the savings contract is deemed to have been closed and any funds saved would automatically be returned to the employee. The option to purchase shares would also lapse.

Maturity

At the maturity of the option, employees have 6 months in which to exercise their options. The alternatives open to

them are:

1. Close the account and take the savings plus the tax-free bonus
2. Close the account and use all of the proceeds to take up the option to purchase shares
3. Close the account and take up the option in part (funds not used for the purchase of shares would be returned to the employee)

If an employee has missed any monthly payments (up to a maximum of 6 months) the maturity date will be extended by the corresponding number of missed payments.

Taxation

Income Tax

There is normally no tax liability when the employee purchases the shares. However, in the event of an early exercise of options (resulting from the Company that the employee works for being taken over or the Company or business being sold) within 3 years from the date of grant, the employee may have to pay income tax on any gain.

Capital Gains Tax

After exercise, there may be a Capital Gains Tax (CGT) liability on the gain between the sale price and the exercise price. If the employee makes a profit on shares when he/she sells them, the employee may have to pay CGT on part of that profit. In general terms, the employee is liable to pay CGT on any Capital gains made in the course of a year. Any gains of less than a specified amount (£10,600 in the 2011-2012 tax year) are free from CGT.

When calculating CGT, the employee is able to add in any costs of buying or selling the shares in arriving at the gain they have made. If they have been unlucky enough to have made a loss on the shares, they can also offset this loss against any other gains they have made in that tax year. Shares released from the plan can be transferred into an ISA; the limit will depend upon the year of investment and the type of provider.

Dividends

As only options are held then there are no dividend payments until the shares are received upon exercise of the option.

Cessation of Employment

If an employee leaves the company the option can no longer be exercised, unless he/she leaves due to special circumstances. He/she can either carry on saving and take the cash and bonus at the end of the savings period, or can close the account and take the payments made.

If an employee leaves due to special circumstances (for example leaving due to redundancy, injury or disability) then he/she has 6 months in which to exercise from the date of leaving. He/she can exercise up to the amount saved.

If an employee dies, the option may be exercised by the personal representatives. Under these

circumstances, the option must be exercised in the 12 months following the death of the employee, or the maturity date, whichever is earlier. If the personal representatives choose not to exercise the option, the employee's savings, plus any bonus, will be paid to the estate.

Set Up and Operation

A share plan adviser can help the company with the setting up of the plan and drawing up a set of plan rules.

A savings carrier, which must be an HM Revenue & Customs approved bank or building society, also needs to be appointed. The carrier will undertake the administration of the savings contract and liaise with the registrar when the options are exercised. Capita, in conjunction with the Royal Bank of Scotland, may also help with the communications to employees, which are very important if the plan is to be successful. An option register can be maintained either by the carrier or in-house.



Features associated in operating a Sharesave plan

Employer:

Shares only need to be allotted at the time of exercise.

The costs incurred in setting up an approved plan are allowable as a deduction in computing the company's profits for corporation tax purposes.

Employees:

Whilst the option remains unexercised, he/she is in a "no lose" situation. If the share price falls to below the option price then there is no requirement to exercise the options. The employee can simply take the proceeds of his/her savings contract (plus the tax-free bonus at maturity).

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JN6360a